



CAE'S 2014 ANNUAL MEETING OF SHAREHOLDERS

Speakers:

Mr. Marc Parent, President and Chief Executive Officer

Mr. Stéphane Lefebvre, Vice President, Finance, and Chief Financial Officer

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English copy

Thank you Mr. Chairman

Bonjour à tous

Good morning Ladies and Gentlemen

We finished another year with a strong performance, including solid earnings and a new record for our total backlog which reached \$5 billion. All of our combined segments have shown increased revenues. We were named number 1 defence company in Canada, we sold 48 civil simulators -an industry record in a very competitive market- and our share price grew by 18% since last year. Underlying these results is the company's culture of putting our **customers FIRST**. This is the theme of our annual report and of this annual meeting of shareholders.

How do we do this? By being **passionate, innovative, focused, global integrated and by being trusted by our customers.**

When I started working at CAE almost 10 years ago, I was truly impressed with the **PASSION** I felt the very first day as I walked in our main facility. Our employees care deeply about our company and our customers. They are passionate about their work and they always go the extra mile.

Let me give you some examples. During the month of December, our teams in Montreal and in Tampa worked relentlessly to deliver 35 simulators and training devices to various clients around the world. This huge delivery is also a record for CAE.

In our healthcare business the teams in operations, customer service and engineering pulled together to build a record of 44 Caesar trauma patient simulators in 30 days.

And one last great example: one of our Bell 412 instructors developed a ground school and simulator course for a client in the Middle East in just two months: the client had contacted us, saying he needed this fast. Others said it would take more than a year... This type of passion and dedication is part of CAE's DNA.

But not only are we dedicated, we also **innovate**. During the last fiscal year, we invested \$150 million in R&D. This year, we launched a new flagship simulator, called the CAE 7000 XR Series; we designed it with our customers and we leveraged the latest advancements that our customers wanted to include like a redesigned instructor office, upset prevention and recovery training, training data analysis, as well as monitoring of systems using the Cloud.

We believe this new simulator will, once again, set a new standard in our industry. And our employees are at the heart of these innovations; through an employee program called innovation challenges, they come forward with hundreds of ideas and we implement many of them for our customers.

As well, we are the trusted simulation and training partner of OEMs. They come to us because they know we will deliver on the most complex programs – developing the world's first simulators while the aircraft is still being developed. This year we started building the world's first simulators for the Dassault Falcon 5X business jet and for the AgustaWestland AW169 helicopter. We have developed the world's first A350 simulator and it is now ready for training at Airbus' training

facility in Toulouse, and we are continuing the development of the first simulators for the Mitsubishi Regional Jet and the Bombardier CSeries.

Working closely with our partners and OEMs is one of our strengths. Testament to this is the announcement we made at the Farnborough Air Show last month. Our joint venture with Lufthansa Flight Training, called the Flight Training Alliance, was chosen by Bombardier as the exclusive authorized training provider for the CSeries.

We also innovate by offering our clients tailored solutions for their specific needs. We can offer them a full array of solutions, from the sale of a single simulator to full training solutions: training cadets, giving the type-rating in one of our simulators and even providing our clients with pilots.

This innovative approach has been much appreciated by our customers around the world.

FOCUS is also a key characteristic at CAE. We are the only pure play in the simulation and training business. We focus on building the best training tools in the industry. We have been developing and delivering simulators to customers since 1952. We made our first international sale in 1957 and, as of today, we have delivered more than two thousand simulators and training devices around the world.

In Healthcare, we launched the CAE Fidelis Maternal Fetal simulator: this is a new simulator with human-like vital signs and responses. It allows the practice of labor and delivery scenarios including emergencies. In the video behind me you can see clinicians of Montreal's CHUM hospital performing an emergency delivery scenario. More than 60 units of Fidelis were sold while we were still in pre-

production. I am proud of the societal benefits CAE brings with such a great product.

CAE is truly a **GLOBAL** company. Our civil aviation training network is by far the world's broadest: we offer training in 60 locations worldwide. In fiscal 2014 we added five new training centres:

- New Delhi
- Perth
- Seoul
- Singapore, and
- a second centre in Dubai.

In Defence, we expanded our customer base with contracts with the forces of Mexico, Poland and the Ministry of Home Affairs in Brunei. Today we serve the defence forces of more than 50 countries and our personnel is located on site at more than 80 military bases providing support services to our customers.

Overall, CAE has customers in 190 countries, operations and training centres in 35 countries and we have 8,000 employees around the world.

We achieved all this by being well **integrated**. Not only are we integrated by offering our clients the most comprehensive solutions but we often draw on the strengths of different businesses to offer highly unique solutions to our customers.

The recently built CAE Brunei Multi-Purpose training Centre is a showcase of this integration: we will offer flight training services to the Royal Brunei Armed Forces for the Black Hawk helicopter and PC-7

aircraft; we train offshore oil and gas operators on the S-92 helicopter. And we also have a contract to establish a comprehensive emergency and Crisis Management Centre of Excellence to support disaster preparedness in Brunei and the ASEAN nations.

And closer to home, I am very proud of the fact that we have a major contract with the Canadian Forces where we are responsible for the overall aircrew training capability for the Chinook and Hercules aircraft and we play a key role in preparing our Canadian Forces for mission readiness.

This program is actually a model for the international defence market in demonstrating the benefits and efficiencies that a training systems integrator such as CAE can deliver.

So, for all those reasons, CAE is a **TRUSTED** partner for our customers. We deliver on our promises, our technologies are leading-edge and we work closely with our customers to offer them tailored solutions. This trust has earned us longstanding relationships. Just in Civil we have more than 30 long-term partnerships with airlines and OEMs. We just celebrated a 20-year relationship with Emirates and signed long-term service contracts with Etihad, Qatar, Jazz, Caverton and ExecuJet Aviation.

In Defence, we also have many longstanding alliances and long-term partnerships, both with OEMs and with the defence forces of many countries.

(PAUSE)

As a result of putting our Customers first, we have become leaders in all our markets, as you can see on the screen.

I will now invite Stéphane Lefebvre, our Chief Financial Officer, to review the financial results for fiscal 2014 and for the first quarter of fiscal 2015.

Stephane Lefebvre, Vice President, Finance and CFO

Thank you Marc.

Good morning, ladies and gentlemen.

Let us first look briefly at some financial highlights of fiscal 2014.

Our consolidated revenue was \$2.1 billion, up 4% from fiscal 2013 and net income was \$190 million, or 73 cents per share. We had a record total backlog of \$5 billion.

In Civil, our revenue reached \$1.2 billion and we delivered \$179.8 million of operating income for an operating margin of 15.3% for the year and 17.9% in the fourth quarter, a significant improvement from 12.5% in the first quarter of the year. We booked orders with an expected value of \$1.5 billion.

In Defence, we generated revenue of \$822.0 million with a combined segment operating income of \$107.8 million for an operating margin of 13.1%. We received total orders of \$757 million.

In New Core Markets, revenue was up 4% to \$116.2 million, and operating income was \$4.2 million.

We had a very good cash performance with \$200.6 million of free cash flow generated to the end of March, \$117 million higher than the previous year. This represents a 105% conversion of net income into free cash flow.

Capital expenditures were \$157.4 million during the year, with \$111.3 million for growth and the balance for maintenance.

In line with our capital allocation priorities, we continued to invest in market-led growth opportunities, with attractive return profiles, while increasing cash returns to shareholders through a dividend increase and deleveraging our balance sheet with a net debt to capital ratio of 36.6% as at the end of March.

Overall, we achieved operational and strategic milestones in fiscal 2014 that position the company well for the year ahead and the long-term.

(PAUSE)

Let's now look at our first quarter results for fiscal 2015.

Revenue was \$526 million, stable over the first quarter last year.

Net income from continuing operations attributable to equity holders was \$43.8 million or 17 cents per share. Operating profit was \$71.7 million, up 16% from \$61.6 million in the first quarter last year.

Consolidated operating margin increased from 11.8% to 13.6%.

We concluded a strategic review of New Core Markets which reaffirmed our conviction in Healthcare and led to a decision to divest Mining. The Company will now focus capital and resources on its three remaining core businesses: Civil Simulation and Training; Defence and Security; and Healthcare.

In Civil, the operating margin was \$49.5 million or 16%, up 32% compared to last year, with revenues totalling \$309 million, up 2% compared to last year.

Civil orders during the quarter totalled \$365 million for a book-to-sales ratio of 1.18x and a trailing twelve months of 1.32 times.

Defence revenue was \$198 million, stable compared to last year, with a margin of 11.1%. The revenue and lower operating income are a reflection of the mix of programs in the quarter and persistent delays in government decision-making.

During the quarter, we received orders valued at \$149 million with a book to sales ratio of 0.75 times. For the last twelve months, the ratio was 0.92 times. In addition to those orders, we received another \$93 million in unfunded orders.

Our Healthcare business generated \$19.4 million in revenues for the quarter, stable with the same quarter last year. We continue to expand our reach through new innovative products and we signed new distribution agreements in France, India and South Korea.

Finally, Mining will continue to operate as usual and be reported as a discontinued operation until it is sold. The business recorded an operating loss in the quarter but most of this was triggered by the divestiture process.

Income taxes this quarter were \$11.6 million, representing an effective tax rate of 21%, compared to nil last year. Last year's exceptionally low rate was related to a one-time tax benefit.

In terms of cash performance, we had a \$8.8 million decrease in free cash flow this quarter compared to the first quarter last year, which put us at negative \$20.9 million. The decrease was mainly due to higher working capital accounts. Our free cash flow is generally higher in the

second half of the fiscal year and we expect that to be the case again this year.

Net debt was \$902 million, compared to \$856 million last quarter. Our net debt to total capital ratio was 37.9%.

Capital expenditures were \$39.7 million during the quarter, with two-thirds for growth and the balance for maintenance.

In summary, operating income was up 16 percent over last year on the back of a strong performance in Civil. We maintained our leadership with strong commercial full-flight simulator sales and remained resilient in Defence. We have a solid total backlog valued at \$4.9 billion and CAE is in a healthy financial position. We have strong cash flow, a solid balance sheet with investment grade profile and strong earnings potential.

Overall, we are well positioned for the future.

I thank you for your attention, and I now turn over the podium to our CEO, Marc Parent.

Marc Parent, President and Chief Executive Officer

Thanks Stéphane.

Looking forward, the fundamentals of CAE's business are strong.

The secular growth in global air travel continues to drive demand for our training solutions. Already, in the first half of 2014, we've seen global passenger traffic grow at nearly six percent, with even higher rates in emerging markets.

- In the US, demand for pilot training is being led by the re-fleeting of regional and mainline carriers, and also by stricter regulations.
- In Europe, demand is resuming with the economic recovery.
- In the Middle East, we are continuing to see a high level of growth in all sectors of aviation.
- We are also seeing a strong low-cost carrier segment driving steady traffic growth throughout Asia. As well, there is a robust Chinese domestic travel.

Another indication of growth in civil aviation is the order and delivery rates of aircraft. We have seen record orders over the past few years and aircraft manufacturers are delivering planes at record rates. Major commercial OEMs are currently delivering nearly 80 narrow body aircraft per month, which is up over 20% from just five years ago. In fact the combined backlog is in excess of 10,000 aircraft, and this represents more than eight years of future deliveries.

There has never been a better time for commercial aviation and CAE is in a great position to reap the benefits of this growth: we offer the largest array of training solutions and the broadest global reach. In addition to keeping pace with the market, we see potential for CAE to continue to move up-market with customers by offering comprehensive training solutions like outsourcings.

We're off to a good start. We have signed important training contracts and we've announced 11 simulator sales in Q1. We see potential for about 40 simulator sales this year while maintaining our leading market share. For the year as a whole, we expect to see double-digit growth in Civil with even higher margins.

(Pause)

In Defence, we've gone through some challenging market conditions, and the business has proven to be resilient. As in previous years, we expect a stronger performance from Defence in the second half.

Like in Civil, we're executing a strategy to move our customers up-market, that means offering them a higher degree of full solutions.

Winning business remains our priority and we continue to develop our pipeline.

Long term, the fundamentals remain attractive for CAE. We have:

- A solid backlog
- A well-diversified business geographically,
- A customer base of over 50 national defence forces,
- Strategic positions on enduring aircraft platforms, and
- We are continuing to see evidence of defence forces increasing their use of simulation-based training. In fact, the Commander of the Royal Canadian Air Force, Lieutenant-General Yvan Blondin, is one of the strongest supporters of simulation-based training. He recently was quoted as saying: "I could cut my costs by 30 percent if I had more access to simulators, there are things that I can do in a simulator that I cannot do in flight."

Overall, this gives us confidence in the short-term resiliency and long-term growth potential of CAE in Defence.

(Pause)

In Healthcare, we remain excited about our long-term prospects. We have grown to become the world leader in healthcare simulation technology. More than 8,000 of our healthcare simulators are currently

used in medical schools, nursing schools and hospitals to allow doctors and nurses to practice safely before doing the same procedures on people like you and me.

We have the right mix of subject-matter expertise, innovation and leadership to continue our growth in an expanding market. We expect double-digit growth and improved margins.

(Pause)

In conclusion, CAE is well positioned for earnings growth in the period ahead, with a leading position in growth markets and the strength of dedicated and experienced professionals.

As proof of our confidence in our end markets and our ability to grow and lead within them, I am pleased to announce that our Board of Directors has approved a 1 cent increase to CAE's quarterly dividend to 7 cents per share, effective September 30, 2014. This is the fourth year in a row that we've increased the dividend.

(Pause)

In closing, I wish to thank our customers for their continued trust in CAE and our employees for their dedication.

I also thank members of our Board for their support.

Finally, I would like to thank you, our shareholders, for your confidence in our great company.

Thank you for your attention.

We are now ready to take questions from the floor.